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TAGS: [SENV](#) [ECON](#) [EINV](#) [PREL](#) [SOCI](#) [UY](#) [AR](#)
SUBJECT: ARGENTINA-URUGUAY PULP MILL DISPUTE: NO END IN SIGHT

REF: Buenos Aires 57, Buenos Aires 126, Montevideo 376 and others

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Summary

¶1. (SBU) SUMMARY. Relations between Argentina and Uruguay have deteriorated since early 2006 over the construction of the \$1.2 billion Finnish-built "Botnia" pulp mill, now nearing completion on the Uruguayan side of the Uruguay River. Some Argentine residents across the river from the pulp mill have strongly objected to the project, alleging it will cause environmental, olfactory, and visual pollution in what they contend is a sensitive ecological and tourist area. Residents and activists have conducted intermittent blockades for the past year-and-a-half of the three bridges along this river that connect the two nations, restricting the flow of people and goods, and reducing Uruguayan trade and tourism. One bridge, connecting Gualaguaychu to Fray Bentos, Uruguay, has been completely closed since November 2006. Initially caught off-guard by the protests, the GoA tacitly encouraged them, seeing apparent political gain, but has since seen what was initially a local community protest balloon into an international conflict.

¶2. (SBU) Argentina resisted Uruguay's initial efforts at mediation via Mercosur, and subsequent mediation through the good offices of the King of Spain have to date been unsuccessful. Both governments have filed cases with the International Court of Justice, and the two governments seem to be at an impasse. The GOU has offered the GOA joint Argentine-Uruguayan monitoring over the plant's construction and operations, but refuses to negotiate any such terms while bridge blockades remain in place. Although the possibility of serious violence is low, there could be trouble in October, when the Botnia mill is scheduled to begin operations, and Argentina holds presidential elections. The USG supported the World Bank/International Finance Corporation (IFC) loan for the project,

but otherwise has avoided becoming entwined in what has been described as a family feud. End Summary.

Deteriorating Bilateral Relations Over Pulp Mill

13. (SBU) This report provides a status report (from the Argentine side of the river) on the Argentine-Uruguay dispute over the construction of two pulp mills being constructed on the Uruguayan side of the River Uruguay, which divides the two countries. The paper mill being constructed in Fray Bentos, Uruguay by Finland's Botnia company is now nearing completion, and is set to begin production in October 2007, at roughly the same time as Argentine national elections. The \$1.2 billion mill represents the largest foreign investment in Uruguay's history and will help the country move up the value chain beyond the export of raw materials, while reportedly generating some 2,500 local jobs (of which 300 will be at the mill and about 2,200 in forestry and local transport). According to local press, the plant is projected to generate value added equivalent to 2.5% of Uruguay's entire GDP (based on 2006 figures) and slightly more than eight percent of the country's exports for each year of full-capacity production. Argentine protests were successful in moving another plant, to be constructed by Spanish ENCE, to a new location (albeit still on the River Uruguay). The Sweden-Finnish Stora-Enso company has also bought significant amounts of land to set another plant in inner Uruguay.

14. (SBU). Relations between Argentina and Uruguay, nations with close cultural, linguistic, and ethnic ties, have deteriorated considerably as a result of the dispute. A protest movement, centered in the Argentine town of Gualeduaychu, Entre Rios Province, 10 miles away from its Uruguay River border, which itself faces the pulp mill, has strongly objected to the project, alleging it will cause environmental, olfactory, and visual pollution in what they contend is a sensitive ecological and tourist area. Argentine protestors since November 2006 have completely blocked road and bridge access to Uruguay near the town of Gualeduaychu. For the past year, Argentine protestors have also occasionally blocked two other bridges farther north on the River Uruguay, usually during holidays and vacation periods. These actions have significantly limited land access between Argentina and Uruguay. In early 2007, the GOA estimated total economic losses of over US\$500 million in reduced trade and tourism due to the restricted flow of people and goods.

Why the GOA Does Not Intercede

15. (SBU) The GOA has repeatedly insisted that it will not use force to stop the blockades and continues to insist that Uruguay and the Finnish company move the Botnia plant to a different location - despite the fact that the enormous plant is nearly finished. Argentine President Kirchner has complained of Uruguayan President Vazquez's "stubbornness," and often linked the Finnish company to "international interests" that want the region to be a "global waste dump."

16. (SBU) The GOA's disinclination to take action against the protestors for what seems to be clear violations of law reflects Argentina's particular attitude towards authority. In fact, blocking roads and staging illegal strikes are common practice in Argentina, and the GOA almost never intervenes. In a country where, according to polls, only one out of four people seeks police or judicial recourse in the case of a dispute, these blockages and strikes are accepted as an outlet for public anger. The Kirchner administration has also shown itself reluctant to use force to control or break up social protests. The previous president, Eduardo Duhalde, was forced to call early elections as a result of massive protests following the deaths of two demonstrators in an incident with security forces. Thus, even though local media confirms that a vast majority of Argentines do not have a strong opinion on the pulp mill, and even many local businesspeople and citizens oppose the blockades, they too have been largely powerless against these protestors.

17. (SBU) Many Argentines and media commentators recognize that the Botnia plant will not seriously harm the environment. Most analysts agree with the IFC's comprehensive cumulative impact study, reviewed by independent experts, which concludes that the mills "compare favorably with best available technology and best environmental practice for mills in Europe and North America" and that "there should be no significant deterioration in the air and water quality in the area." In late 2006, IFC and Multilateral Investment Guarantee Agency (MIGA) approved a \$170 million investment and a guarantee of up to \$350 million for Botnia. In fact, many observers predict that the Botnia plant will have a net positive effect on the cleanliness of the River Uruguay -- in addition to scrubbing its own wastewater, the Botnia operator has reportedly offered to treat the wastewater of the town of Fray Bentos, as well as waste products emanating from an existing pulp plant located in the nearby town of Mercedes.

Argentine Media Generally Balanced, But Also Fueling Conflict

18. (SBU) Argentine media has generally pointed out inconsistencies in the GOA and protesters' positions, Argentina's own spotty environmental record, and highlighted the modern standards of Botnia's technology. Media have also criticized Kirchner for what they describe as his mishandling of diplomacy in this dispute, and a major example of Kirchner's focus on domestic issues at the expense of foreign policy. But it has also fueled the conflict by putting protestors at the center of the story. There was one notorious exception to the media's otherwise generally fair coverage: the well-respected daily, La Nacion, published photos in October 2006 said to be from the Argentine side of the Uruguay River, showing what appeared to be an enormous and ugly Botnia factory protruding on the other side of the river, with beach-goers in the foreground. Only later was it learned that the photo of the mill was taken with a telescopic lens, and superimposed over a normal shot of the nearby beach. This doctored photo likely contributed to the general Argentine willingness to support the protestors, and many Argentines are convinced that Botnia will dominate the beach's view. In fact, Botnia is only barely visible on the horizon from the Argentine beach.

Argentine Hypocrisy on Environment

19. (SBU) Argentina itself unsuccessfully competed for the same investment, primarily at the Entre Rios Province level, but lost, reportedly due to its problematic investment climate. There are currently ten Argentine paper mills operating with older and more polluting technology than that to be employed by Botnia. When confronted with this fact, the GOA response has been to point out that it has gone after Botnia and Uruguay for violating various provisions of the Statute of the River Uruguay, the 1975 agreement meant to govern the actions of Argentina and Uruguay on their shared river. Nine of Argentina's paper mills are within the country's borders, while one, in Misiones Province, shares water with Paraguay but has not been the subject of controversy. Another issue is that Argentina is home to perhaps the most polluted river in the hemisphere, the Riachuelo River, which spills out toxic chemicals into Buenos Aires, and later goes downstream by the Uruguayan coastline. While the GOA has improved its record in regulating mining and water pollution in recent years, its spotty environmental record puts it in a weak position to criticize Uruguay.

Attempts at Resolution Unsuccessful So Far

10. (SBU) Uruguay first attempted to bring this case before a Mercosur tribunal in June 2006, seeking damages from Argentina for the blockades and noting that the founding Mercosur Treaty of Asuncion guarantees the free circulation of goods and services between members. The GOU calculated then that the blockades had caused \$400 million in losses, and that the GOA had failed to act to

prevent or lift them. The GOA countered that it did act to soften the effects, and was able to demonstrate that bilateral trade during this time had in fact increased. The tribunal, an ad hoc assembly of three arbiters (one each from Argentina, Uruguay and Spain), issued a non-committal ruling in September 2006 that was interpreted as a victory by each side. The judges ruled that the GOA had acted "in good faith" to dissuade road blocks, but its failure to remove them was not compatible with its obligations under Mercosur, that the GOA was not liable for reparations, the tribunal would not take special measures to oblige the GOA to dissuade future roadblocks, but that the blockades had caused "undeniable inconveniences to both Uruguayan and Argentine trade." Both governments claimed victory - but the conflict continued.

¶11. (SBU) During the late 2006 Ibero-American Summit in Montevideo, Kirchner reportedly requested the assistance of King Juan Carlos of Spain to facilitate negotiations. President Vazquez agreed, while repeating the GOU's condition that it would not agree to substantive negotiations while the blockades were in place. Argentine protesters' response was that a sine qua non for them was that the plant be moved. The King of Spain is currently mediating the dispute, via his emissary, Spanish Ambassador Juan Yanez-Barnuevo, who has conducted several negotiations in Uruguay, Argentina, Madrid, and New York since late 2006, but as yet with no success.

¶12. (SBU) Different aspects of the case have already been through two rounds of review by the International Court of Justice (ICJ) in The Hague. Uruguay prevailed in the first round in July 2006 when the ICJ rejected the GOA's request for an injunction to halt construction while an environmental impact study was conducted. Uruguay argued that the alleged peril to Argentina was not imminent or immediate, and the Court concluded - by fourteen votes to one - that "the circumstances are not such as to require the exercise of its power to indicate provisional measures." This judgment did not settle the question of whether Uruguay was ultimately breaching its Treaty obligations to Argentina, a decision not expected until late 2007 at the very earliest. Argentina argues that Uruguay had violated the Argentine-Uruguay bilateral 1975 River Uruguay treaty by allegedly failing to consult the GOA before acting on any project that might affect the river. The GOU said that it had held discussions over the plants, with no GOA objections, and also argued that the plants were to use the "best available technology," in this case a chlorine-free bleaching method. The GOU also argued that an independent World Bank study had supported their position. Uruguay may still be liable to Argentina if it is later found to be in breach of Treaty obligations. Argentina won round two in January 2007 when the ICJ denied Uruguay's request to hear its case for forcing an end to the Argentine road and bridge blockages.

Tensions likely to endure, but serious violence unlikely

¶13. (SBU) Popular Argentine support for the Gualeguaychu demonstrators has waned from its high point in May 2006, when a bikini-clad Miss Gualeguaychu crashed the official photo session of the Europe-Latin American summit of 60 European and Latin American heads of state in Vienna, holding a sign that read "No Pulp Mill Pollution" in English and Spanish, and gave the issue unusual international exposure. Most observers, however, think that these roadblocks - and nominal GoA support -- will last at least until the October presidential elections, and likely longer. Although local analysts, press and Post contacts largely discount the possibility of serious violence, trouble could occur in October, when the mill commences operations and Argentina holds presidential elections. There is the possibility that some Argentine protestors could attempt to take advantage of the heightened political tension to escalate the conflict. There have also been occasional Argentine media reports that the Uruguayan military has begun to prepare for possible protests near the site after the plant begins operations.

¶14. (SBU) Recently, tensions have mounted. The GOU, responding to some Gualeguaychu activists' placards depicting bombs and missiles hitting the pulp mill, reportedly sent a strongly worded official protest of this "terrorist" threat. In response, the GOA in turn reportedly called in the Uruguayan Ambassador to protest the use of the term, and noting that Argentina had twice been a victim of

terrorism in the 1990s. On August 14, a small amount of sodium sulphide, a material with which Botnia employees routinely work, was accidentally released in the air during a period of high wind. According to a Botnia press release, two workers downwind showed skin, eye and upper respiratory symptoms, but according to medical professionals, there were no major clinical symptoms. Nonetheless, this incident prompted more GOA and activists' complaints.

¶15. (SBU) Also recently, and for the first time, protestors have extended their road blocks to territory completely within Argentine territory, blocking Route 14, "Mercosur Highway," connecting Argentina and Brazil, through which 7,000 vehicles pass daily. In another first, a federal judge, reportedly responding to local business formal complaints, recently ordered federal police to prevent a regularly scheduled blockade of the northernmost of the three bridges, in Concordia. On August 29, GOU President Vazquez inaugurated a new port in Nueva Palmira, near the new Botnia plant, that will handle all the wood and pulp shipments for the new pulp mill. The GOA MFA sent a strongly worded protest note, noting its "worry and despair" that Vazquez's appearance would "aggravate" this dispute. At this port opening ceremony, a group of Argentine protestors were also nearby, having approached in several boats, remaining at the Argentine-Uruguay maritime border, several hundred yards away. The GOU Coast Guard kept a watchful eye, and the protest was reportedly peaceful.

USG Position

¶16. (SBU) The United States voted in favor of a November 2006 US\$ 170 million IFC loan and US\$ 350 million MIGA risk insurance package for the Botnia plant. The World Bank believes that this plant will have a significant, positive effect on the Uruguayan and regional economy.

Comment

¶17. (SBU) The Kirchner administration appears to have painted itself into a corner by allowing the Gualeguaychu protests to become a national cause celebre and by providing rhetorical and likely financial support for the protesters. Given the positions staked out by the two governments, any Argentine conciliation would be viewed as treason by the Gualeguaychu hardcore and as an embarrassing defeat for a GOA policy initiative by Kirchner administration supporters. Uruguay has adapted to this situation, as has Argentina: the occupancy rate of the existing ferry that services connecting the two nations has reportedly grown sharply since the dispute, and a new ferry line has opened business as well.

¶18. (SBU) Increasingly, it appears that the initial strong support for this cause has faded. The Argentine press and motorists appear to have less and less sympathy for these roadblocks. Even Kirchner's decision to promote Romina Picolotti, the leading Gualeguaychu protestor to the federal post of Secretary of Environment - has now soured on him, as she now faces charges of misappropriation of funds and nepotism. Some analysts believe that the GoA, after the elections, will look for some face saving way to de-escalate the situation, accept conditions Uruguay has offered, and try to put this bilateral debacle behind it. End Comment.

KELLY